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Transformation of the State Budget and Budgetary Process in Vietnam

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Notes

Introduction

This paper describes the transformation of the State budget and budgetary process in Vietnam with reference to the changing relationship of the State to economic activity from the "neo-Stalinist" period of command economy to the liberalized economy under *doi moi* (renovation). The lack of distinction between the State and the economy under the command system of the neo-Stalinist period linked all elements of public policy, including the planning and budgetary processes, inextricably to the (presumably integrated) national economy. Subsequent failures in economic performance contributed to the demise of the State budgetary system under the centrally planned economy. The reform of the budget in Vietnam reflects a process common to the experiences of socialist States that had adopted similar economic programs. The fiscal survival of these states required the reformation of their budgetary structures and processes to complement their newly liberalized economic programs. Increasingly, both economic policy and budgetary regulations incorporated "rational" market principles requiring various forms of administrative regulations.

The principles guiding the budgetary process in Vietnam prior to its recent re-design differed significantly from those directing the current effort. Recent re-evaluations by State and academic institutions in Vietnam of the problems of the State's budgetary process under the command economy system conclude that the root of its failures was the result of a number of factors. One factor suggested is the unavoidable failure of the central command system itself, explained as a misinterpretation of "socialist economics" for Vietnam's particular conditions of underdevelopment. This politically acceptable hypothesis, which continues to preserve the "goal of socialism," became the logic behind the gradual abandonment of the "neo-Stalinist" model of transition to socialism for the "market mechanism" in economic as well as administrative reform. Another explanation for the abandonment of the pre-existing budgetary structure and process is that it was, along with State administration in general, highly unsystematic and poorly regulated. The enormous changes envisioned in the current economic plan for rapid industrialization and modernization for the year 2010 *(Cong nghiep hoa va hien dai hoa den nam 2010)* have tremendous implications for the budgetary process, including the expansion of the administrative apparatus for its effective standardization, as well as for the budget's composition. The focus on balancing the budget and the shifts in the areas of public spending reveal the newly defined role of the State on the path to modernization and socialism via the market path in the *doi moi* period.

The Socialist State Budget under the "Neo-Stalinist" Transition Model

As previously noted, no distinction between State and economy officially existed in the neo-Stalinist model adopted by the Democratic Republic of Vietnam (DRV) at its founding in 1945. Thus, the State's budget and economic activities were conceived of as parts of one and the same system geared towards the centralized regulation of all life activity toward the realization of a socialist society, one which was defined in heavily economic and nationalistic terms. As the instrument for carrying out the agenda of the Vietnamese Communist Party (VCP), the State was empowered to dominate all aspects of economic activity, including the determination of production input and targets, wages, and prices for goods, as well as their collection and redistribution. Its budget in turn was in large part described by the flow of resources within this production and monetary circulation. In addition, foreign aid, primarily from the Soviet Union, contributed to the national budget. Such contributions helped to sustain areas of public spending critical to the DRV's infrastructural development, including public works and public institutions such as educational and health facilities, during this period of intensifying international political conflict.

The intertwining of the State budget with economic production and circulation under this system linked the failures of the latter inextricably with the problems of the former. While the failure of the neo-Stalinist economic system was multi-dimensional, these problems were rooted in the State's inability to control economic activity. The primary role of the State's budget within the command economy was to regulate prices and wages for the development of the urban industrial sector and to finance its operation. Under the design of this program, the rural sector bore the greatest burden and reaped the least benefit. The State determined the prices for agricultural goods sold to it and also set the production targets for these goods. While per capita grain production did increase from 1956-1968, when rural producers were effectively organized into cooperative units in order to maximize output, a shift from the norms of the neo-Stalinist economic model can be observed as early as the first five-year plan of 1961-1965. That is, beginning in 1966, local responses to the cooperativization drive and State control are clear, reflecting "spontaneous bottom-up" reforms in agricultural production.[1] It has been demonstrated elsewhere that the declining productivity in agriculture resulted from the artificially low prices for agricultural goods required because of the urban sector's budgetary burden on the State.[2]

The urban sector was privileged under the State economic plan for rapid industrialization and thus not subject to budgetary constraints. This "soft budgetary constraint" basically meant that enterprises within this sector were not held accountable for maintaining a fiscal balance for their operation.[3] This situation is a major factor in the decline in productivity in this sector and the increasing reliance on State finance to sustain the existence of public enterprises. As a result, the State budget and finance system became primarily a subsidy program for industrial enterprises, as well as urban prices and wages. In addition, new pressures, arising specifically from the effort to integrate the former Republic of Vietnam into the national economy and address the tremendous physical damages incurred during the course of the war with the United States (US), were placed on the national budget after 1975. As a result of the war's impact on the rural areas throughout the country, the cities were flooded with refugees from the war, especially in the South. The State plan's reliance on agricultural production required tremendous investments in repopulating and renewing farmlands in the rural areas in order to alleviate the labor shortage in rural production and urban unemployment. The State also undertook the project of establishing new economic zones (NEZs) during this time.

Up to this point, the State's huge budgetary expenditures relied almost exclusively on foreign aid, especially from its socialist allies. However, reflecting the severity of the increasing stress on the budget during the postwar period and the increasingly strained relations with the People's Republic of China (PRC), until then one of its major allies, the Socialist Republic of Vietnam (renamed in July 1976) made moves towards drawing other sources of foreign capital. In April 1977, a new law was passed in the hope of attracting foreign aid and investment from nonsocialist countries, which had been extremely low during and as a result of the war. The law enabled two types of joint ventures. It also permitted foreign-owned companies to produce entirely for export. Various concerns held by potential investors regarding Vietnamese economic and political institutions, not to mention the impact of the US-led international embargo on trade, discouraged foreign capital from investing. Due to these factors, the SRV would remain largely isolated from nonsocialist economies for another decade.

In 1978, the project of unifying the national economy under one State budget, banking system, and currency was completed. By 1979, however, major reforms began to take place in the economic plan. During this year, foreign aid from the PRC decreased dramatically in response to the SRV's incursion into Kampuchea which toppled the PRC's ally regime. Western aid also declined in reaction to both this event and the geopolitics taking place in the region, as reflected in the US-PRC relationship emerging with the Shanghai Communique. As a result, the SRV was forced to become more self-reliant in budgetary matters. From 1978, the SRV's budget became increasingly dependent on credit from the Vietnam State Bank and its issuance of new currency, which resulted in high inflation. While the State budget continued to be dependent on the national financial institutions, revenues decreased significantly during the 1979-1981 period as a result of the impact of spontaneous abandonment of the rural cooperative system, especially in the hastily collectivized South. This latter event refers to the widespread evasion by rural producers of surrendering production to State procurement, depriving the State of the revenue side of its budget. De-collectivization also meant the emergence of markets independent of State control.

The abandonment of the State-ordered cooperatives by the rural populations of many regions in the country reflects the general shift from the command logic of economic and State organization beginning in this period, described as "bureaucratic centralism." Resolution Six, which was passed in the VCP's Sixth Plenum in August 1979, responded to criticisms of the organizational model of bureaucratic centralism in economic management and public administration, which were voiced as early as 1976 by Prime Minister Phan Van Dong. The Resolution called for the restructuring of the economy for overall decentralization, allowing for more flexibility to the lower administrative units and shifting responsibility for "self-reliance," including the management of resources and responsibility for loss and/or profit, down to the provincial and, especially, district levels. A system of "economic accounting" was implemented under the principle of cost-efficiency. This system required all economic units to make calculations to formulate plans and implement them. Changes in the tax regulations in 1980 shifted some of the control over fiscal matters and resources to localities and villages, which were permitted to retain all proceeds. The new tax code also offered various reduction and exemption rates on income tax to stimulate activity in cottage industries and animal husbandry.

The policy reforms of Resolution Six were quite cautious during this time, however, as the State continued to play a strong role in controlling the financial system. The State price and wage structure remained in place, but prices for most goods were raised in order to stimulate production. In the summer of 1981, the price structure became partially rationalized (market-determined), leading to a drastic increase in prices and requiring further State subsidies of wages in urban areas. Meanwhile, the State still offered higher prices on some goods in order to stimulate production, and the *dong* (the SRV's currency unit) was devalued in order to encourage foreign investment, particularly from within the Asian region. State targets continued to be issued for industrial production, but State export producers under Resolution Six were allowed to retain and invest some foreign exchange earnings as an incentive to improve productivity: up to 10% from goods produced for the State plan and up to 50% earned from goods produced in excess of the plan.

By the September meeting of the Council of Ministries in 1981, the economy was racked by inflation and other "negative phenomena" from the reform of two years earlier. Resolution Two passed by the policy-making body limited the free market activities of State-owned enterprises (SOEs). These restrictions were felt most heavily in Ho Chi Minh City. This cycle of economic (including price) liberalization followed by inflation and restriction was a common problem in the partial reforms undertaken by socialist economies shifting towards "market socialism."[4]

"Negative phenomena," as defined by the State to include cultural influences and the impact of imports on consumption levels, were treated even more deliberately by the State. As a result of Resolution Two, by 1982 imports from capitalist countries decreased 48% of the 1979 value, while imports from socialist countries increased from 52% to 81% of Vietnam's total imports. The impact, however, was that overall imports decreased 14% in 1980s. The decline in imports diminished the supplies available to SOEs. This, in turn, caused the State to become even more financially burdened by its own industries, which it refused to abandon.

At this point, the State's response to the economic changes can be viewed as more concerned with the problems of its budget and the anxieties caused by the emerging private economic sector. Solutions continued to emphasize fostering greater productivity and profits from its industries as well as making the administration of the budgetary process more effective. During the Fifth Party Congress of March 1982, members of all official levels criticized the existing economic and financial management system of the public sector. Participants at the Congress reiterated the need to shift from the old bureaucratic system of State finance to one based on the principles of economic accounting and business applied all the way down to the district level. The Fifth Party Congress was also most concerned with the urgent need to ease inflation. In July 1984, the Sixth Plenum of the Central Committee concretized the Fifth Party Congress Resolution when the Council of Ministers decided to make effective the National Industrial Management (also referred to as the "new management system" in official documents) in late 1984 with the goal of lessening the burden on the budget by making SOEs more responsible for their expenditures and losses and by providing material incentives to increase productivity and profitability.

The State's caution against the strengthening private economy is also indicated in another drive to stimulate the agricultural cooperative sector. A wide-ranging tax reform passed in early 1983 aimed at curtailing the rapid expansion of the private commercial sector, which had been occurring most dramatically in the rural sector, with taxes and fines on licenses and profits. In reaction against the effects of the 1980 changes in tax regulation, the new law also sought to promote cooperative forms of production and to distribute this through tax exemptions. A fixed tax on land was instituted in place of the previous progressive income tax. However, the State was slow to establish a rural credit system. Therefore, rural markets improved, but not substantially, until after the Sixth Party Congress in 1986 when the Party decreed the banking reforms of 1987-1988 that established rural lending institutions.

The various tasks of this reform required the expansion of the State administration for these regulations. This expansion of the administrative apparatus became the focus of the reform of the budgetary process after the formal acknowledgment of the role of the private economic sector in the *doi moi* policy adopted in 1986 at the Sixth Party Congress, in which reformist participants emerged after the death of long-time anti-reformist Party General Secretary Le Duan in July of that year. The *doi moi* policy indicated the official abandonment of partial economic reforms for the fostering of a "socialist market economy." *Doi moi* was enacted after inflation levels reached uncontrollable levels in 1985 (at 700% between September 1985 and September 1986) when the State Bank was forced to react by continuing to expand the currency supply. The State's role in relation to economic activity was thereby redefined in the shift away from the State-dominated economy and subsidy system.

Changes in the Budget and Budgetary Process after *Doi Moi*

As discussed in the previous section, under the neo-Stalinist command economy and early partial reform policies, the State hoped that its ability to manipulate production targets, prices, wages, and state credit would serve as mechanisms to both balance the national budget in the SRV and control economic activity. However, after the broadening of economic liberalization in 1986 with the *doi moi* policy, a large proportion of economic activity became a sphere independent from the State, challenging the basis of the command economy model. The irrepressible emergence of a distinct economic sphere required a redefinition of the State's role in relation to economic activity. The problem for the reform of the State budgetary process in the post-*doi moi* period is linked to new questions of how to estimate economic production more accurately and how to foster an environment in which economic activity would be regularized.

Policy guidelines made at the 1986 Party Congress also reflected a move towards decentralization of the political process, which Huynh Kim Khanh perceived as an expression of a formal commitment to the democratization of Vietnamese politics.**5** Huynh noted that Party members demanded genuine participation in the policy-making process during the Sixth Congress. Lively discussion took place at local and regional meetings in preparation for the Congress, especially in regard to the Political Report, which is the most important document expressing the will of the Party in a Congress. As a result, Party members in the various localities overwhelmingly rejected the Report for its failure to reflect the *real* situation of the Party and the country. The Congress's Political Report was revised accordingly. Without disguising the defects of the command system, the document enabled the official shift towards broadening economic liberalization.

The post-*doi moi* budgeting process gradually, but nonetheless increasingly, reflected and conformed to the competitive economic environment resulting from the expansion of private economic activity. By 1986, free market economic production had already accounted for 40% of all retail trade in Vietnam. However, despite this climate seemingly dominated by economic rationalism, the State refrained from hasty transition to a market-sensitive budgetary system by preserving long-standing resource distribution patterns. In January 1986 the rationing of several food items was reinstated and some in-kind payments of wages resumed due to high inflation. Credit policies also remained absurdly low in order to benefit SOEs in the face of a growing private sector. On the other hand, the careful shift in the direction towards a market economy was apparent in other decisions regarding SOEs made at the Sixth Party Congress held in 1986. These aimed at weeding out the most unproductive SOEs, previously subsidized under the regime of "soft budgetary constraints." In large part to ease the burdens on the State budget, hard budget constraints on SOEs were instituted in 1986, resulting in the closing or merging of over 6,000 SOEs between 1986 and 1994. This left approximately 5,000 SOEs remaining operation at the end of that period.**6**

The State's ineffective administrative apparatus was also seen as a crucial area to reform in the process of adapting to the emerging market environment. For example, one crucial policy attempted to create free internal trade by closing customs posts and checkpoints previously put up by cities and provinces to tax commerce. Understanding that this policy was not easy to enforce, given an "underdeveloped" administrative system, the notion of "rule of law" became popular among the ranks of the Party and State in the quest for appropriate administrative reforms. The process of rationalizing procedure and organization thus extended to the public administration structure as well, echoing the common strategy and goal of shifting fiscal responsibility. Between 1986 and 1994, government offices were reduced in number from 76 to 49 offices as a result of "streamlining" the bureaucracy, cutting administrative expenses, and "rationalizing" government functions.[7] Demonstrating its success in reforming administrative enforcement of new laws in import-export taxes on such goods, in early 1988 the State reported an increase of 50 billion *dong* in budget revenue. Of this figure, 3.8 billion came from exported goods, 7.2 billion from imported goods, 22.5 billion from imported commercial goods, and 8 billion from imported noncommercial goods.

Alongside market-inspired economic growth and administrative rationalization, a new budgetary system began to crystallize in this context of market, rather than command, production. However, despite the increase in tax revenue reported earlier that year, in December 1988 the National Assembly passed its Resolution on the State Budget reflecting the State's growing consciousness of and focus on balancing the national budget as indicated in its Resolution for the 1989 socioeconomic plan. The Resolution on the State Budget called for a reduction of budgetary overspending and the creation of additional sources of revenue through the "(mobilization of) more sources of idle capital from various economic organizations and from among the people for use as the main source of capital for credit operation" as well as through the readjustment of credit interest rates and the provision of credit capital to the production sectors. It also ordered a tremendous withdrawal of the State from certain areas of economic activity. The new policies included the rationalization of wages and the commercialization of grain prices, which ended State subsidization of grain business losses and, as a result, the administration's role in procurement and distribution. Beginning in 1989, buying and selling in the grain business took place on a commercial basis through direct contact between producer and consumer. This minimized circulation costs by eliminating middlemen and hindrance from administrative boundaries.

A package of anti-inflationary measures, passed during the Sixth Party Congress in 1986, was implemented in early 1989. These included policies aiming for: (1) the end of widespread subsidization and market disequilibrium, by ensuring that basic macro-variables were set realistically at levels that met general approval from International Monetary Fund and World Bank staff; (2) positive interest rates after a long period of very negative real interest rates; and (3) tying the official exchange rate to within approximately 5% of the free market rate. Moves towards a market economy were also reflected in the resolution of the Sixth Party Plenum of the Central Committee, which met in March 1989. The resolution included decrees which: (1) permitted capitalist trade to operate under State control; (2) acknowledged that various economic sectors would exist long-term; and (3) guaranteed the right to do business in conformity with the law. As a result of the implementation of these measures in 1989, inflation decreased, credit interest rates increased, and exports increased. To take advantage of the increased economic activity, this National Assembly Resolution called on the Council of Ministers to formulate a unified and rationalized system of tax laws to encourage and regulate production and business (private, cooperative, or otherwise).

Under the legislative body's resolution, the State budget was redefined as one which represented a "uniform system from top to bottom" in which the "division of responsibility for management of the budget must be carried out in such a way as to suit the tasks and the socioeconomic development level of each locality."[8] Local and lower-level governmental branches were thus delegated the responsibility of "making arrangements to ensure rational and economical expenditures and to reduce those items of expenditure which allow for reductions to gradually cut down on budget deficits."[9]

The decentralization of budget management from the central to local authorities was described as an urgent measure in order to create favorable conditions for localities to take the initiative in shaping their own budgets for the performance of all socioeconomic tasks that had been assigned to them by the State. The Resolution, however, also attempted to maintain the State's power to control capital investments and spending, stating that funds earmarked from the central budget must be "first of all reserved for key State projects, for infrastructure projects and for investment in and support of certain socioeconomic objectives in those localities, whose budgets are too tight, as well as in those areas hardest hit by natural calamities." What the policies in the resolution package point towards is the expansion of the role of the State in the attempt to reform the budgetary system into a more systematic and controlled one. The resolution responds to this by also including a policy for the Renovation of Management and Organization of Cadres: "the Council of Ministers' function regarding State economic management and that of echelons of people's committees-they should guide and create favorable conditions for grassroots economic units to really take the lead in formulating plans and organizing production and business *in line with State plans and market requirements*."

It is from the passing of this Resolution in late 1988 when the State budget clearly becomes a central matter of importance in the public policy-making process as well as in the ongoing process of the economic development. In a January 1989 editorial in the national daily newspaper of the Party, *Nhan Dan* ("The People"), titled "The People's Role in Implementing the State Budget," the Party voice explains:

> For years now, due to an irrational economic structure, to the fact that the mechanism of economic management still in the process of renovation, and also because of weaknesses in activities related to monetary administration, there has continuously been enormous budgetary overspending.[10]

Although the problem of the previous budgetary process identified here is an administrative one, the editorial goes on also to accuse "the people," local governments, and lower level administrative offices of demanding too much allocation from the State budget. This criticism is targeted at the unintended and undesired effect of a plurality of political interests being articulated in response to the anxieties within a new condition of limited budget. The "people's role" apparently refers to their continued contribution in the form of the national income tax, which increased from 20% of the State budget's revenue in 1988 to 23-25% in 1989. The "people's role" is also defined in the negative, in allowing the State to determine the spending which would serve the people's interests.

Therefore, the apparent decentralization and reform of administration implied by the Renovation of Management and Organization of Cadres is primarily a devolution of responsibility, rather than of participation, in the budgetary process. The State began to stress the desirability of fostering conformity to certain budgetary practices. In July 1989, the State Budget Committee under the National Assembly announced a Draft Tax Law that criticized the existing budgetary process for lacking a "systematic nature, inconsistency, and lack of uniformity."[11] The initial reform of the budgetary process relied heavily on the reform of the administrative apparatus for a more standardized and effective one, especially in the area of tax collection.

Instituting the Budgetary Process in the 1990's: Decentralization and Recentralization

The process of systematically redefining the budgetary process seems to have begun in the months just prior to 1992, the year when the National Assembly (*Quoc Hoi*) approved the latest Constitution of the Socialist Republic. The reform of the budgetary process is consistent with the reform of the State overall, whose role in relation to economic activity was redefined in the 1992 Constitution as one which fostered the conditions appropriate for economic development leading towards the goal of socialism. Official criticism of the State administration, especially its budgetary system, pointed out the *ad hoc* character of administrative organization and procedure. These became complicated, however, given all the remedial measures to enhance the State's effectiveness in realizing its budgetary requirements, as described throughout this paper. Therefore, by the 1990's, there existed a sprawling ineffective bureaucracy with little logic to its organization.

Another concern for the political leadership was the impact of the economic liberalization policy that began in previous years. *Doi moi* delivered what were perceived as "mixed blessings" such as the increase in foreign investment in Vietnam, especially from 1990, when a notable increase in the number of visits to Vietnam by economic delegations from other countries were recorded. While the mere presence of foreign enterprises did not directly threaten the political climate that the Party leadership wanted to preserve, it did coincide with increasing demands within the political apparatus for pluralist politics, including that by Politburo member Tran Xuan Bach, which prompted the Party's reaction. Xuan's ouster from the Politburo that year reflected the limits of the Party's toleration for political liberalization. The limits of political reform were also reflected in other moves, such as the passing of a new press law calling for greater control over the press and new regulations over religious activities.[12] News accounts from 1989 and 1990 reflect a high reportage of Party purification and disciplining activities: such as, building and renovating the Party as well as stepping up efforts in mass proselytizing programs and mass mobilization. This was perhaps another factor as to why the effort to maintain central control of State administration became a top concern.

Reform of the structure and administration of the State budget also kept in mind the potentially negative political effects of decentralizing fiscal accountability and practices in public sector units. In March 1990, the Ministry of Finance set up a new State Treasury system. The new treasuries operated from the central to district levels and had some functions and duties as "special banks." Aside from managing State reserve financial funds to be turned over by the banks, the State treasuries also managed the State's centralized foreign currency fund, budgetary fund, and various State reserve funds nationwide. The idea was to enable the treasuries to concentrate revenue quickly, regulate capital and funds promptly from wherever there is a surplus to wherever there was a shortage, and ensure timely payments of expenditure drains from the State budget. At the same time, the treasuries held the power to control all expenditures strictly in accordance with State regulations and procedures, thereby contributing to consolidation and enhancement of budgetary and financial discipline.[13] The Finance Minister was responsible for reviewing the results and evaluating the implementation of financial and budgetary tasks for half-year periods. The Minister also planned the tasks and measures necessary for fulfilling the program of actions for the coming half-year. Also participating in the creation of the new treasury system were the comrade heads of finance offices, industry, trade, agriculture, and State revenue services from provinces, cities, and special sectors.

The budget deficit reported by the National Assembly in 1990 was explained by the inaccuracy of initial estimates of budget revenue from tax collection. The actual revenue from taxes was far off the targets estimated during the drafting of the budget: only 47% from SOEs, 41% from industry and trade sector, 98% from agriculture, 57% from commercial goods import and export. In response to this, the Finance Ministry called for the development of positive measures to cope with tax collection shortfall and evasion, the exploitation of new sources of budget revenues, the tightening of control over sources of foreign currency, and the tightening of control over spending strictly according to Council of Minister's directive. Real tax revenue did grow extremely rapidly from 1992 to 1994.[14]

While the State continued with its effort to cut costs and to streamline public administration organization and process (approximately 550,000 civil servants were discharged from their positions in 1990[15]), the low productivity of SOEs remained protected from criticism and harsh measures. In the following two years, the rationalization of administrative and economic activity continued alongside retractions of political freedoms. At the same time, foreign investment, joint ventures, and international aid increased dramatically (foreign banks entered Vietnam in 1992). The State's continued protectiveness over the SOEs may be interpreted as a reaction to the events of private, especially foreign, commercial expansion in Vietnam. In addition, while Western aid remained extremely limited throughout the 1980's, in the 1990's, the State was able to rely on foreign aid from the West for particular areas of public spending. As a result, the State's resources were more available for artificially sustaining SOEs. Evidence of this may be inferred from the clear shift in budgetary spending from public services, such as education and health, to capital investment in the 1990's when foreign aid in the former area has enabled the State to shirk on its responsibility in public welfare.

This is not to say that the SRV did not recognize the precarious nature of foreign aid. However, shifts in budgetary distribution are difficult to change in the reformed system, given that such spending patterns have a tendency to become entrenched. Therefore, the privileging of the SOEs had to be justified within a longer term vision of their role in the SRV's ongoing economic development. Under the State plan, public sector enterprises were designated to play an important role in the process of modernization and national prosperity. Therefore, despite the failure of the SOEs to produce, the centrality of this sector in the program for national prosperity justified the State's refusal to abandon it. Subsequently, the State continued to explain the low productivity and inefficiency of the SOEs as a result of poor management technique. Protection of the State economic sector was secured alongside the renovation of its management mechanism. The concept of the "new economic management" prevalent in State documents, especially since 1990, reflects the expectation that the magic of this market-inspired system of organization and accounting will soon deliver.

However, Adam Fforde, an authority on the Vietnamese economy notes what he observes as a clear trend towards recentralization from mid-1992. According to Fforde (and his co-authors), the trend towards recentralization of power was apparent in finance, including the areas of financial management, tax collection, and approval of investments by State businesses.[16] The State Finance and Monetary Council was established in 1992 to oversee these tasks.[17] Along with the recentralization in management of the country and the reassertion of Party involvement, the role of SOEs in the national economy became ever more important. The Sixth Party Plenum of July 1994 concluded in an official commitment to rapid industrialization, justifying the need for SOEs to continue to dominate high-tech sectors. The requirement for better planning towards this goal justified greater power for the State planning apparatus, which encouraged large State sector conglomerates. Within the new plan, the State's most important role is the management of large-scale commerce by the control and influence of resources (which in theory includes increased tax revenues, such as import duties). This role entails numerous tasks by the State, such as maintaining its borrowing capacity. The State also assumes the task of encouraging higher deposits at banks, increased overseas development aid (ODA), and a flood of FDI (subject to State approval and special incentives). And, at the same, it should establish greater regulatory capacity, enhanced control over international borders, and better economic information and databases.

A range of general departments was set up directly under the central guidance of the Ministry of Finance, including the departments of Taxation, Development Investment, Business, Public Assets, and the State Auditor. The Auditor, which emerges as a key element of the "rule by law" program, is responsible for assisting the Head of Government in deciding upon the accuracy of documents and reports relating to organizations that use State funds. Its annual work plan has to be approved by the Head of Government.[18] In January of 1995, the Head of the Government, Vo Van Kiet, laid down Vietnam's eight main tasks for the year, including the three important activities of: ensuring better control over State finance through measures to improve fiscal control and to stimulate ODA; finalizing the National Economic Development Strategy for the period to 2010; and formalizing the State management of SOEs and cooperatives through legislation. Therefore, the change in the State's function from direct involvement in the economy to one of indirect management through laws and policies has not reduced the scope of the State sector but actually enlarged it despite the official promotion of streamlining State administration to cut waste and expenses. This overhaul of the organizational structure included the merging of eight governmental departments into three new super-ministries in 1995. Ostensibly to cut red tape in administrative process, this re-organization also centralized the process. In addition, by 1995 all research aimed at setting up development plans was forced into amalgamation into the State Planning Committee (SPC), including the radical reformist Central Institute for Economic Management (CIEM) in 1994 and the absorption of the State Commission for Cooperation and Investment (SCCI) in 1995. This concentration of power in the SPC reflects the recentralization of research and policy-making to ensure that no other organizations can oppose or dispute the Committee.

This trend towards recentralization is also revealed in the Law on the State Budget (*Luat Ngan sach Nha nuoc*) adopted in 1995, which instituted the systematic reform of the budget in conformity with the new role of the State in economic activity, as redefined in the 1992 Constitution. Article 22 of the Law vests the Ministry of Finance with authority over the SPC, which must coordinate its proposals with the Ministry of Finance. The Ministry, however, primarily serves to uphold the budgetary decisions made by the National Assembly (*Quoc Hoi*), which is the State body with the highest authority in the budgetary process. The Law on the State Budget defines it as an estimation of programs and offices within the jurisdiction of the State, including local governments. The National Assembly's Committee on the Economy and Budget (*Uy ban Kinh te Ngan sach Quoc Hoi*) proposes the budget estimate and allocations to the Assembly after considering annual draft proposals from programs, offices and local governments. The Assembly's Committee for Commercial Affairs (*Uy ban Thuong vu Quoc Hoi*) decides on the apportioning of budgetary funds to each ministry, branch, etc. of the State. The National Assembly also approves the budget balance sheets of previous periods. The Ministry of Finance, however, has incredible leverage in its responsibility for implementing the State budget, such as revenue collection and management of the budget fund. The State Bank comes under its authority. One problem is that the State Bank has been functioning as a credit financing arm for the Ministry, which apparently had permitted it to lend without limit to the Government and SOEs. In practice, the Ministry of Finance may exercise more power than officially circumscribed, given the numerous departments under its direct authority.

Despite the apparent success at finding new sources of budget revenues and making tax collection more effective during previous years, tax revenues declined in 1995. The problem was in part due to the extent to which the economic growth rate differed from what was predicted. The official estimation was somewhere around 25%, with an inflation rate of below 10%. Instead, inflation was high in 1995, above 20%. The problem of such faulty economic predictions by the State was partially due to the wishful thinking that continues to color the frantic vision of attaining the goal of prosperity with the phenomenal rapidity of the neighboring states, which the SRV leadership apparently seeks to emulate. The State responded to such unexpected strong inflationary pressures by selectively curbing spending in particular areas as well as by delaying the disbursement of funds to non-priority programs. Continuing with a trend that began earlier in this decade, health and education were officially dubbed lower priority areas in 1995, and disbursements in these areas were cut back sharply.[19] Given the rapid industrialization program, spending priority is given to large-scale capital-intensive projects, such as in transport and communications, telecommunications, power, construction, irrigation, and forestry. Each of these is considered the basic infrastructural requirements deemed necessary for rapid economic development and growth, while the SOEs are seen to ensure the State's ability to control economic activity, despite their potential to become heavy burdens on the State budget.

Budgetary spending patterns which privilege the State-dominated rapid development plan are also reflected in the prioritization of State's national economic plan over the development programs and social concerns put forth by local governmental units. Despite the rejection of the centralized command model, the restructuring is overshadowed by the political leadership's ability to assert its agenda, given the new budgetary system and the concentration of decision-making for development planning. Contrary to the empowerment of local governmental units suggested by the notion of administrative decentralization and by the seemingly ubiquitous call for the application of the "market mechanism" in recent policy resolutions, the new budgetary structure and procedure have limited the possibilities of negotiating social policy and development patterns by establishing the imperative of budgetary balance, which requires the fiscal accountability of individual units. While there was a strong push from local authorities for State resources to finance the "strategic plans" for local development that they designed, it is unlikely that State resources would be made available for even a minor proportion of these projects.

Two possible developments would threaten the formula for rapid development with a strong State role. First, the private economic sector may gain strength despite the State's hope to make use of private enterprise initiatives at local levels within the limits of its larger "national purpose." A second, more pressing problem for the State is the soaring trade deficit, which was recorded at almost $3.5 billion in the beginning of the last quarter in 1996, in comparison to $2.3 billion in all of 1995. Earlier that year, the State made a move to protect SOEs with a revised foreign investment law that excludes foreign firms from participating in certain sectors of the economy. This move reflects, in part, the fact that the salaries of SOE government officials and managers are dependent on whether companies will survive, which is unlikely if exposed to private, especially foreign, competition.

Closing Comments

In this essay I do not wish to suggest that the complete liberalization of the SRV economy by eliminating its public sector is a preferred solution to the fiscal crisis of the State. Rather, I hope to point out some of the areas of tension that might arise given the imperative of a balanced budget in the context of the new structures promoting decentralized economic accountability and centralized decision-making. While the entrenched interests that may emerge, given the privileging of the SOE's, obviously might thwart the State's goal of a balanced budget, the strategy to protect the country's key industries and economy from domination by foreign or other private interests is not an entirely faulty one. However, at the same time, the welfare of the population is treated as fiscal expenditure and neglected in the budgetary structure. The nature of "new management mechanism" behind the SOEs' operations is another area requiring closer study. Furthermore, given the current budgetary structure, if revenues are to come from taxation of private economic activity rather than from the profits from SOEs, such developments in Vietnam's economic liberalization within the context of the global economy is also an important one to explore. These all contribute to the State's legitimacy, which is at stake and in danger of diminishing with the increasing degree of sacrifice required by the people given the new budgetary priorities during this uncertain period of change.

Notes

1 Stefan de Vylder and Adam Fforde, *Vietnam: An Economy in Transition* (Stockholm: Swedish International Development Authority, 1988).

2 See William Turley and Mark Selden, ed., *Reinventing Vietnamese Socialism: Doi Moi in Comparative Perspective* (Boulder: Westview Press, 1993) and David Marr and Christine White, eds., *Postwar Vietnam: Dilemmas in Socialist Development* (Ithaca: Southeast Asia Program, Cornell University, 1988).

3 The problem of "soft budgetary constraints" in socialist enterprises is discussed by Janos Kornai in *The Road to a Free Economy: Shifting from a Socialist System: The Example of Hungary* (New York: W.W. Norton and Company, 1990).

4 John P. Burns, "China's Administrative Reforms for a Market Economy," *Public Administration and Development* 13, no. 4 (October 1993): 347.

5 Huynh Kim Khanh, *Indochina Issues*, 1988.

6 FBIS-EAS, 25 August 1988, 60.

7 *Nhan Dan* (Hanoi), 1995, editorial: "Mot So Van De Ve Cai Cach Bo May Nha Nuoc Hanh Chinh" ("Some Issues in the Reform of the State Administrative Apparatus").

8 FBIS-EAS, 30 December 1988.

9 FBIS-EAS, 30 December 1988.

10 FBIS-EAS, 17 January 1989, 71.

11 FBIS-EAS, 17 July 1989, 68.

12 FBIS-EAS, 6 May 1991, 43.

13 FBIS-EAS, 29 March 1990, 69-70.

14 Adam Fforde, *Vietnam Economic Commentary and Analysis*, no. 7 (Canberra: ADUKI, 1995), 68.

15 FBIS-EAS, 22 January 1991, 55.

16 Fforde, *Vietnam*.

17 FBIS-EAS, 20 November 1992, 55.

18 Fforde, *Vietnam*, 110.

19 Fforde, *Vietnam*, 69.